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SAMUEL I. ROSENMAN (1896-1973)  
RALPH F. COLIN (1900-1965)

March 20, 1995

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

William F. Caton, Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, N.W.  
Washington, D.C. 20554

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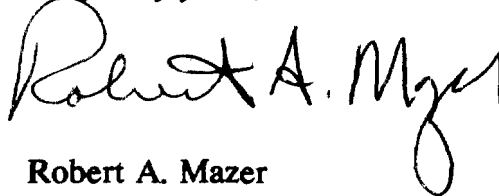
Re: Price Cap Performance Review for Local Exchange Carriers  
Ex Parte CC Docket No. 94-1

Dear Mr. Caton:

The attached letter was sent today to Kathleen M.H. Wallman, Chief of the Common Carrier Bureau. The letter provides additional support for a continuation of the existing price cap plan for elective companies. Copies were also sent to each of the Commissioner's offices.

I am filing two copies of this response pursuant to the requirements of Section 1.1206(a)(1) of the Commission's Rules.

Very truly yours,

  
Robert A. Mazer

No. of Copies rec'd  
List A B C D E

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

**Ms. Kathleen Wallman**  
**Chief, Common Carrier Bureau**  
**Federal Communications Commission**  
**1919 M Street, N.W.**  
**Room 500**  
**Washington, D.C. 20054**

Dear Ms. Wallman:

Re: CC Docket 94-1

Lincoln Telephone Company ("Lincoln"), by counsel, is submitting this letter to supplement the record with regard to the Commission's proposals to modify its price cap regulations described in the above-captioned proceeding.

In the Second Report and Order in the Price Cap Proceeding (CC Docket 87-313, 5 FCC Rcd 6786 (1990) at para. 103), the Commission recognized that smaller companies may not be able to sustain productivity improvements equal to that of the largest local companies and therefore made price cap regulation optional for smaller firms. Four companies elected price cap regulation on the terms and parameters of that Order. Lincoln elected price cap regulation with the annual tariff filing that was effective on July 1, 1993. Lincoln was the last company, to this date, to elect price cap regulation and has been subject to that form of regulation for less than seven quarters. It made its decision to elect price cap regulation based on the existing price cap plan. The information outlined below demonstrates the need by companies such as Lincoln for continuation of this plan. Lincoln believes that if changes are made to the plan, that affect its risk under the plan, it will be forced to reconsider its initial election. This would not be in the interest of Lincoln or its subscribers.

**Lincoln Will Not Be Capable Of Sustaining The Same Productivity Gains As The Larger Local Companies Over The Long Run**

Lincoln is 1/70 the size of a mandatory company (Exhibit A).

Ms. Kathleen Wallman

March 20, 1995

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- From the late 1970s to present, Lincoln adjusted downward its labor force by 32%. Further reductions will become asymptotic very quickly and are limited by scale and scope (Exhibit B).
- Lincoln has already engaged in significant network and operational centralization. Lincoln completed its digital switched conversion in 1992 and 100% of Lincoln's interoffice routes are fiber optic (Exhibits C1-C5).

**Modification Of The Current Price Cap Plan Will Limit  
Lincoln's Ability To Fund It's Ten year Broadband Plan**

- Lincoln's management has approved a plan to build a broadband network that is expected to cost \$200 million. This would increase annual capital requirements by approximately 60%. Relative to larger companies, this represents a significantly greater risk due to the limited size and diversity of the Lincoln market.
- Undue constraints on video dial-tone and other interstate prices erodes Lincoln's ability to implement these plans.

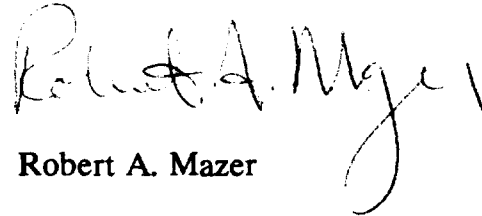
**Lincoln Will Be More Vulnerable To Competition And Therefore Competition  
Will Reduce Productivity At A Faster Rate Than For Larger Local Companies**

- Lincoln has only one urban area (Lancaster County, Nebraska) over which to spread competitive risks.
- This one county, Lancaster, out of the 22 counties serviced by Lincoln represents 61% of Lincoln's revenue (Exhibit D).
- One of Lincoln's 137 wire centers accounts for 30% of its interstate access revenue (Exhibit E).
- Lincoln receives most of its revenue from very few customers (Exhibit F) (i.e., 25% of Lincoln's end-user revenues are generated by less than 1000 customers.)
- Competitive options currently available to major IXC's in one wire center could reduce Lincoln's interstate access revenue by 12% (Exhibit G).

**Ms. Kathleen Wallman**  
**March 20, 1995**  
**Page 4**

In conclusion, Lincoln believes that, changing the plan that Lincoln elected would be inappropriate at this time and any conclusions based on Lincoln's short experience period would be premature. Moreover, Lincoln believes that unitary productivity hurdles are not appropriate for all price cap LECs because of fundamental differences in markets and costs. The Commission can, however, design a price cap plan that does provide the proper incentives for efficiency and investment for a broad range of local companies.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Robert A. Mazer", with a stylized flourish at the end.

Robert A. Mazer

cc: **Chairman Reed E. Hundt**  
**Commissioner James H. Quello**  
**Commissioner Andrew C. Barrett**  
**Commissioner Susan Ness**  
**Commissioner Rachelle Chong**

## EXHIBIT A

### COMPARISON OF SIZE Lincoln vs. Mandataory Companies

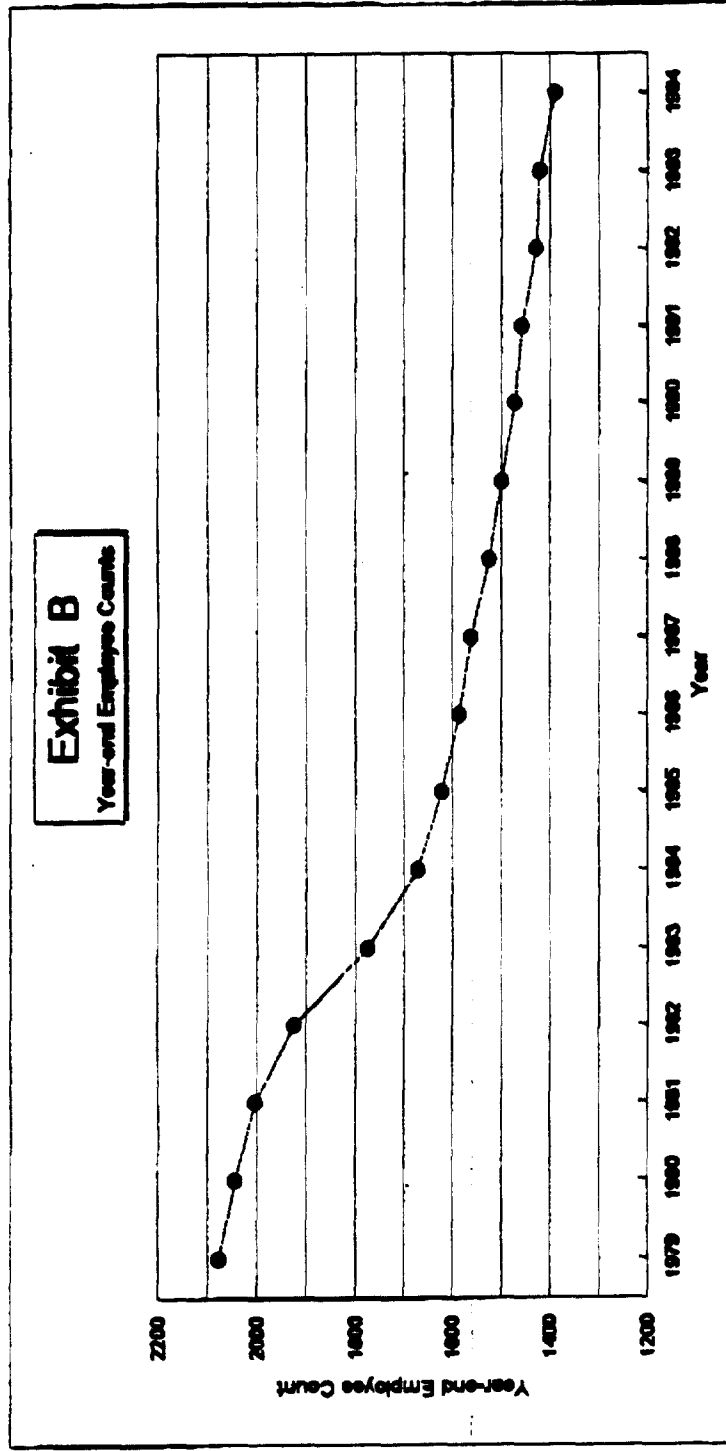
	1993 Operating <u>Revenues</u>
Lincoln	150,185,888
Ameritech	10,127,000,000
Bell Atlantic	11,258,632,000
BellSouth	12,928,866,000
GTE	12,569,128,000
NYNEX	11,399,833,000
Pacific	9,244,000,000
Southwestern	8,153,486,759
US West	<u>8,655,900,000</u>
Average Mandatory	10,542,105,720
Percentage	1.42%
Size	1/70

Source: USTA Phone Facts 1994

# Year-end Employee Counts

# Lincoln Telephones Company

YEAR	EMPLOYEES
1979	2076
1980	2044
1981	2004
1982	1928
1983	1776
1984	1672
1985	1623
1986	1587
1987	1564
1988	1525
1989	1500
1990	1473
1991	1456
1992	1429
1993	1422
1994	1390



**EXHIBIT C1**



**LINCOLN TELEPHONE & TELEGRAPH  
SWITCHING ENTITIES  
AS OF 1995**

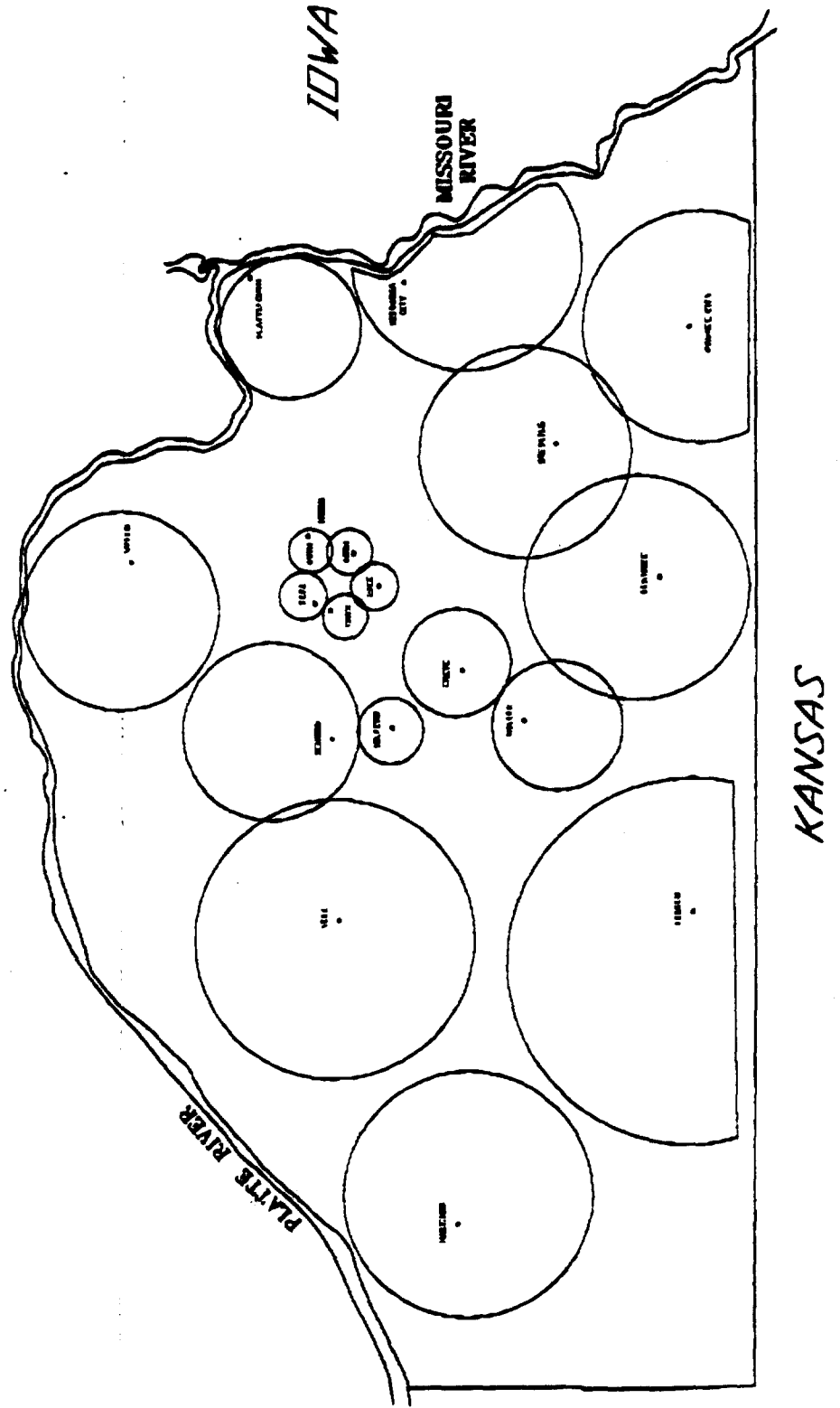
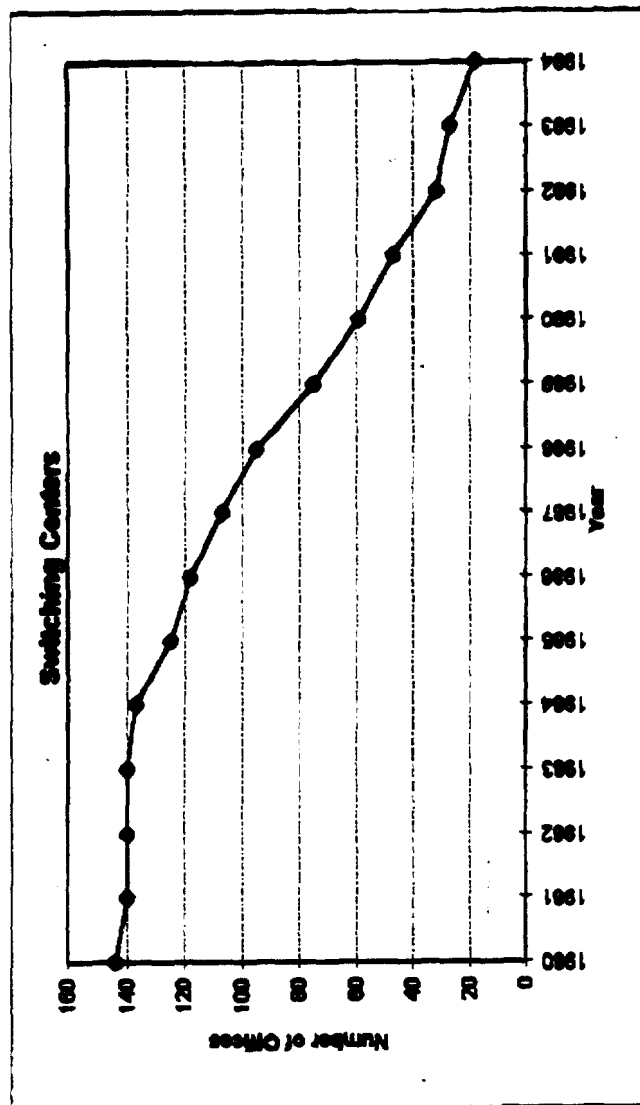




Exhibit C3



Switch Consolidation

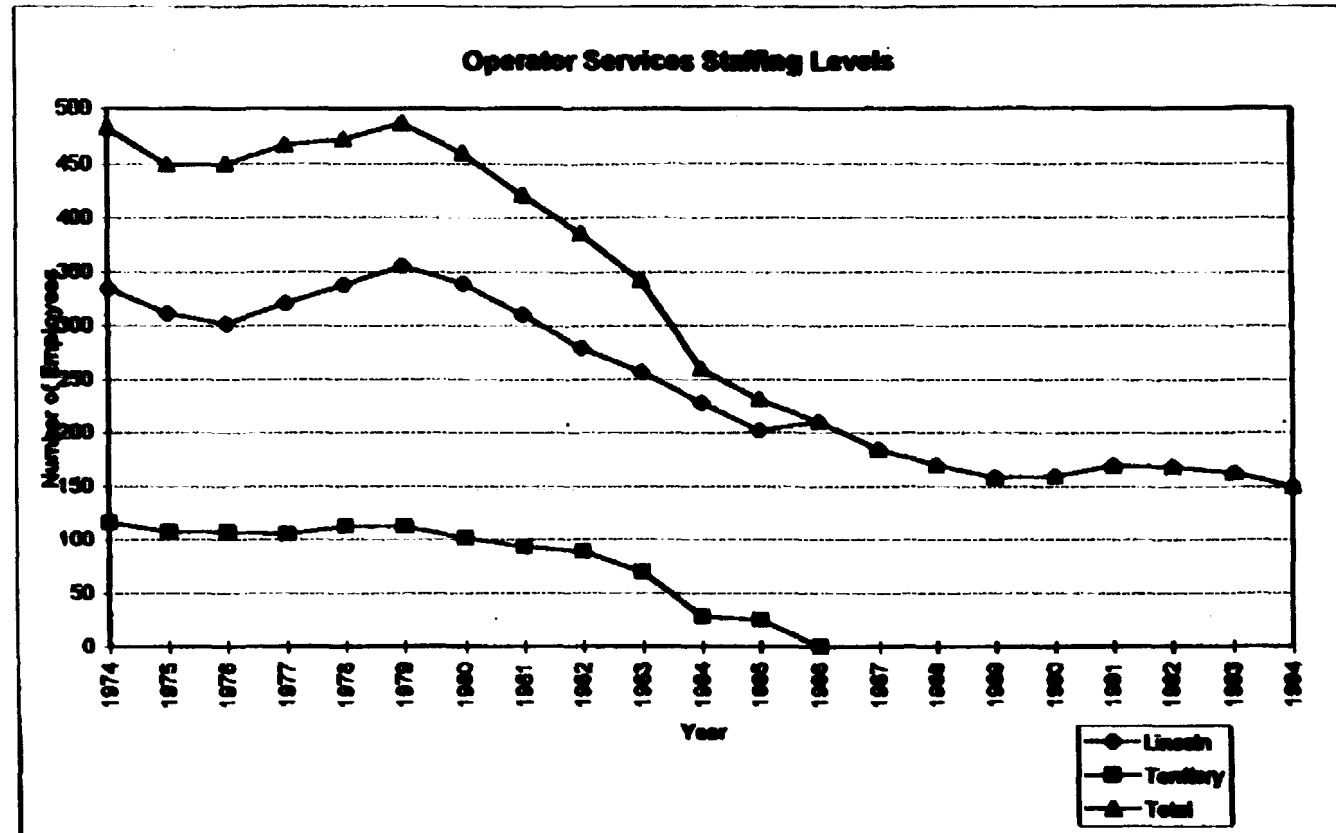
Year	Switching Centers
1980	144
1981	140
1982	140
1983	140
1984	137
1985	125
1986	118
1987	107
1988	95
1989	75
1990	59
1991	47
1992	32
1993	27
1994	18

Exhibit C4

Operator Services Staffing Levels

Lincoln Telephone Company

Year	Lincoln	Territory	Total
1974	335	116	451
1975	311	107	418
1976	302	107	409
1977	321	106	427
1978	338	112	450
1979	355	112	467
1980	339	101	440
1981	310	93	403
1982	279	89	368
1983	257	89	346
1984	226	28	254
1985	202	25	227
1986	210	0	210
1987	184		184
1988	170		170
1989	158		158
1990	150		150
1991	168		168
1992	168		168
1993	162		162
1994	150		150

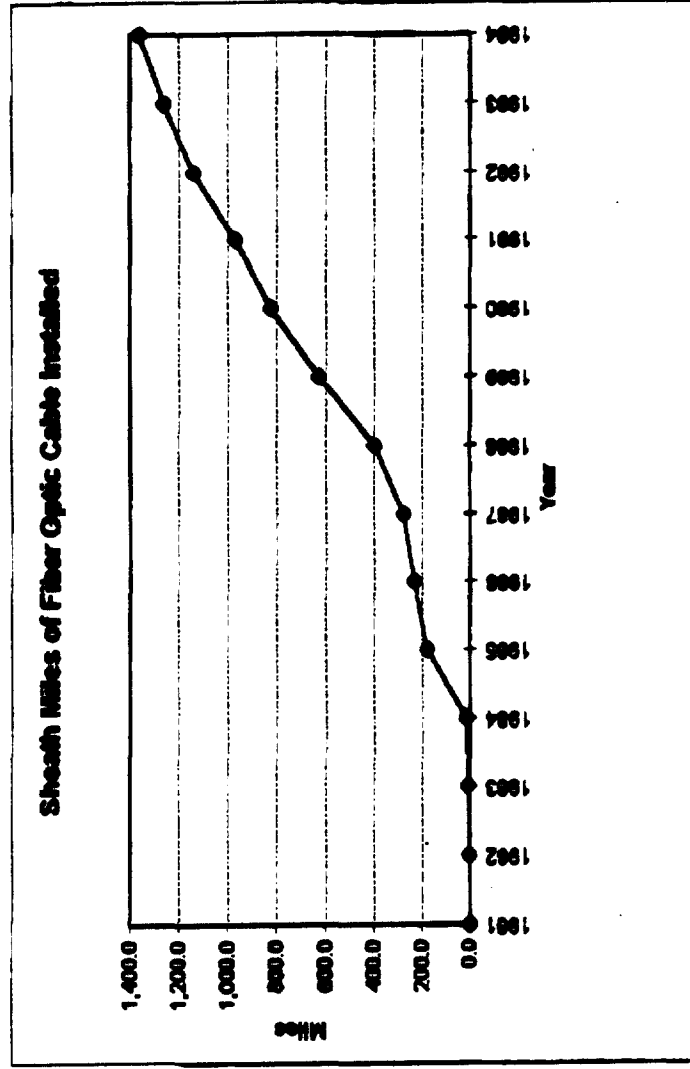


# Fiber Optic Cable

Exhibit C5

Lincoln Telephone Company

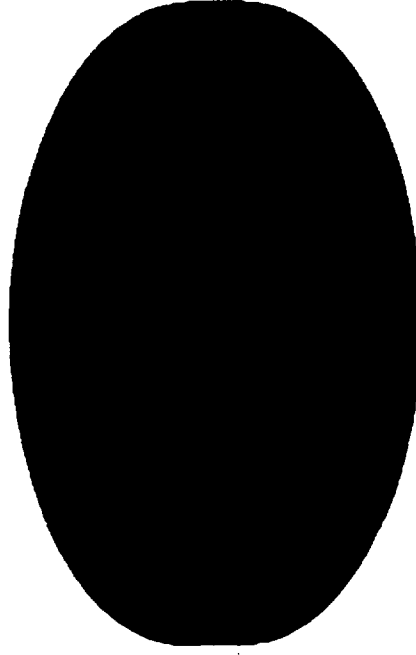
Year	Sheath Miles
1981	0.0
1982	3.0
1983	8.5
1984	16.2
1985	177.4
1986	233.6
1987	278.4
1988	398.6
1989	627.5
1990	823.8
1991	970.3
1992	1,141.8
1993	1,265.0
1994	1,362.9



# Exhibit D

Total Revenue by MSA & Non-MSA

(61.3%)



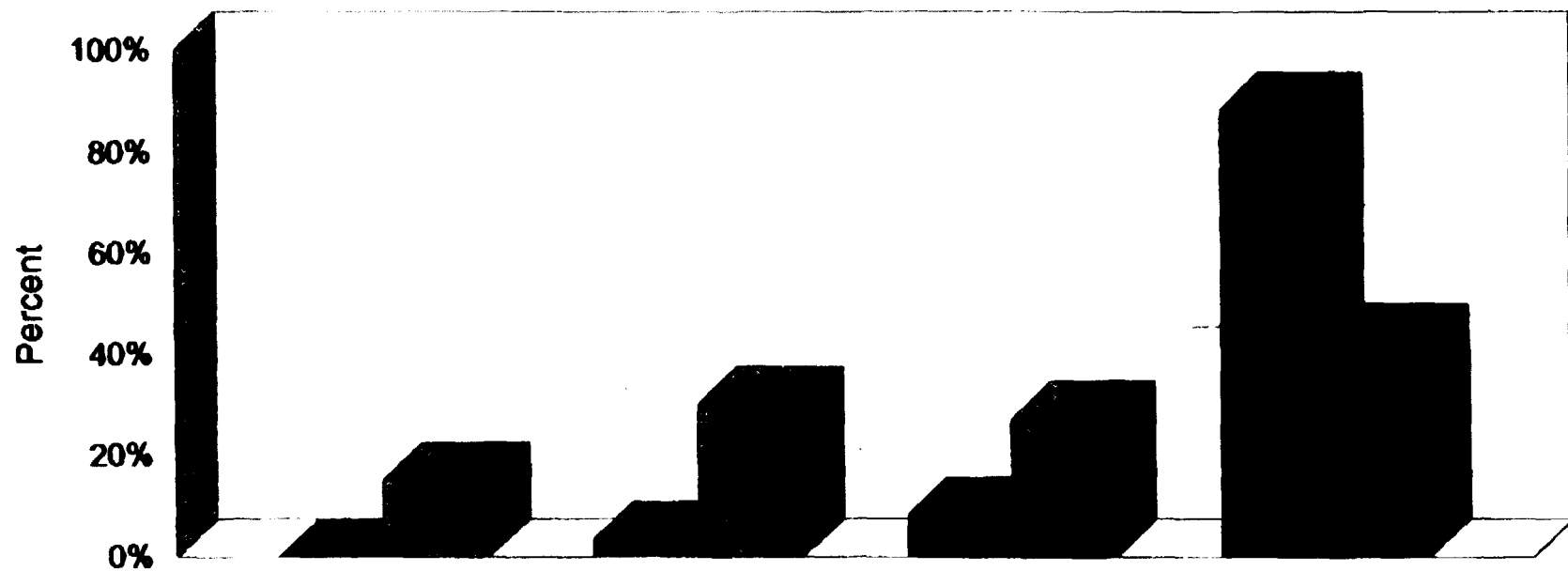
(38.7%)

■ MSA

■ NON-MSA

# Exhibit E

## Revenue Density

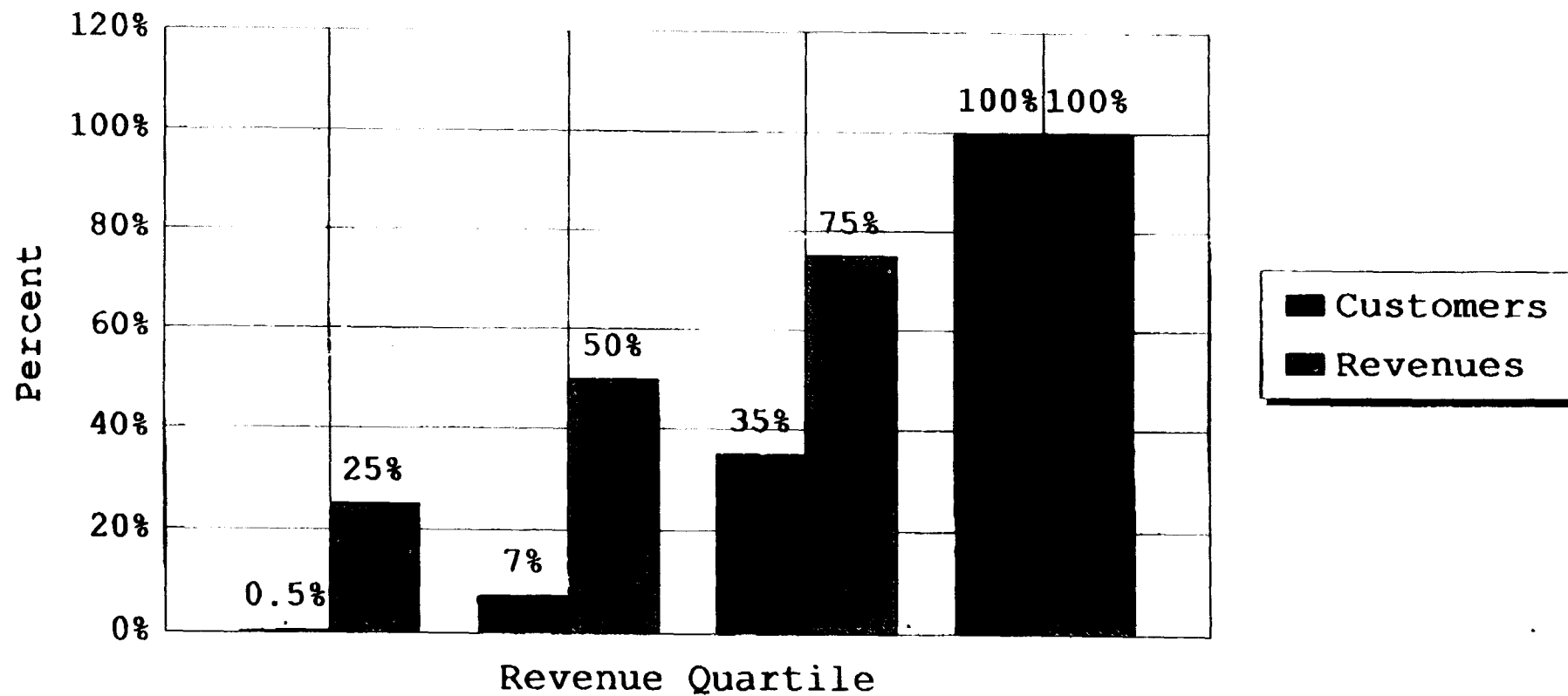


	15th & M	Zone 1	Zone 2	Zone 3
■ Square Miles	0.0049%	3.4044%	8.3362%	88.2593%
■ Revenues	15.0234%	30.1629%	27.3060%	42.5311%

Values will not add to 100% because 15th & M data is a subset of Zone 1

## Exhibit F

### End Users by Revenue Quartile



# Exhibit G

## ESTIMATED COMPETITIVE REVENUE LOSS with collocation in one wire center

Service Category	SCENARIO 1			SCENARIO 2		
	1993 Base Period Revenues	Percent Subject to Competition?	Estimated Revenue Loss	Percent Subject to Competition?	Estimated Revenue Loss	
Common Line	\$11,783,848	0.00%	\$0	0.00%	\$0	
Traffic Sensitive	\$8,730,609	0.00%	\$0	0.00%	\$0	
Interconnection	\$4,929,772	0.00%	\$0	37.96%	\$1,871,276	
Tandem Switched	\$2,240,427	26.25%	\$588,177	26.25%	\$588,177	
Voice Grade	\$1,065,960	27.18%	\$289,702	27.18%	\$289,702	
Audio	\$10,630	44.01%	\$4,678	44.01%	\$4,678	
DDS	\$251,180	36.70%	\$92,181	36.70%	\$92,181	
DS1	\$2,074,277	39.25%	\$814,068	39.25%	\$814,068	
Misc	\$53,538	0.00%	\$0	0.00%	\$0	
IX	\$32,364	0.00%	\$0	0.00%	\$0	
Total Price Cap Revenue	\$31,172,605	5.74%	\$1,788,805	11.74%	\$3,660,081	

Scenario 1 - Assumes that the 80% of the tandem switching charge remains in the interconnection charge.

Scenario 2 - Assumes that the 80% of the tandem switching charge currently in the interconnection charges is reallocated and become subject to competition.